

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00  
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-04  
TRSE-00 LAB-04 SIL-01 OMB-01 IO-13 L-03 /065 W  
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P R 251459Z APR 77

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 3605

INFO ALL EC CAPITALS

USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 4099

PASS TREASURY (SYVRUD), FEDERAL RESERVE BOARD (SIEGMAN)

E. O. 11652: GDS

TAGS: EEC, EFIN, IMF

SUBJECT: EC PRESIDENCY STATEMENT TO IMF INTERIM COMMITTEE

REFS: (A) EC BRUSSELS 3872; (B) EC BRUSSELS 3908

MISSION HAS OBTAINED ON A CONFIDENTIAL BASIS DRAFT EEC PRESIDENCY  
STATEMENT TO APRIL 28-29 MEETING OF IMF INTERIM COMMITTEE. TEXT  
FOLLOWS:

"1. BEFORE SPEAKING ON BEHALF OF HER MAJESTY'S GOVERNMENT I  
HAVE THE PRIVILEGE OF ADDRESSING THIS MEETING ON BEHALF OF THE  
EUROPEAN COMMUNITY. THIS PRIVILEGE FALLS TO ME BECAUSE THE  
PRESIDENCY OF THE COUNCIL OF MINISTERS IS CURRENTLY HELD BY  
THE UNITED KINGDOM.

2. THE PROSPECTS FOR THE WORLD ECONOMY HAVE BEEN A MATTER OF  
CONCERN TO MEMBERS OF THE EUROPEAN COMMUNITY. THERE HAS BEEN  
SOME BRIGHTENING IN THE OUTLOOK SINCE THE TURN OF THE YEAR, BUT  
THE COMMUNITY AGREES THAT THERE IS A NEED FOR INTENSIFIED  
COOPERATION AT THE INTERNATIONAL LEVEL AS WELL AS  
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WITHIN THE COMMUNITY, IN ORDER TO PROMOTE SUSTAINED  
ECONOMIC RECOVERY AND MITIGATE THE SEVERE UNEMPLOYMENT  
BEING EXPERIENCED IN MANY COUNTRIES, WITHOUT RISKING THE  
RENEWAL OF INFLATION.

3. THE INTERIM COMMITTEE HAS A CENTRAL ROLE TO PLAY IN  
PROMOTING COOPERATION, IN TWO RESPECTS: FIRST BY

ENCOURAGING APPROPRIATE POLICIES FOR ECONOMIC ADJUSTMENT, AND SECONDLY, BY CONSIDERING THE ADEQUACY OF THE FINANCING FACILITIES AVAILABLE TO IMF MEMBERS.

4. THE EUROPEAN COMMUNITY ACKNOWLEDGES THAT SOME PROGRESS HAS BEEN MADE WITH THE ADJUSTMENT PROCESS DURING THE PAST YEAR. BUT THERE WILL NEED TO BE SUSTAINED FURTHER EFFORT BE DEFICIT AND SURPLUS COUNTRIES ALIKE. MANY COUNTRIES INCLUDING BOTH DEVELOPING COUNTRIES AND OECD MEMBERS ARE, AND WILL BE, CONFRONTED WITH BALANCE OF PAYMENTS PROBLEMS, ASSOCIATED WITH THE OIL SURPLUSES, OF A CHARACTER, SIZE AND LIKELY DURATION NEVER EXPERIENCED IN THE PAST. WITHIN THE OIL CONSUMING COUNTRIES, HOWEVER, BOTH SURPLUS AND DEFICIT COUNTRIES SHOULD MAKE A CONTRIBUTION TO THE ADJUSTMENT PROCESS. IF EXCESSIVE DEFLATION IS TO BE AVOIDED, THIS WILL HAVE TO BE GRADUAL AS WELL AS FIRM SO THAT THE DEFICIT COUNTRIES CAN MAKE ROOM FOR AND PROMOTE THE SHIFT OF RESOURCES NEEDED TO ACHIEVE A SUSTAINABLE POSITION ON THE CURRENT ACCOUNT AND THE COUNTRIES IN STRONG PAYMENTS POSITIONS CAN BRING ABOUT A CONTINUING AND NON-INFLATIONARY EXPANSION OF DOMESTIC DEMAND.

5. THE COMMUNITY NOTES THAT THE IMF HAS PLAYED A SIGNIFICANT AND INCREASING ROLE IN INTERNATIONAL FINANCING AND IN THE DISCUSSION OF ADJUSTMENT MEASURES WITH MANY COUNTRIES. IT ALSO NOTES THAT IN MANY INSTANCES THERE HAS BEEN HEAVY RELIANCE ON THE INTERNATIONAL COMMERCIAL BANKING SYSTEM, TO ASSURE FINANCING. THE COMMERCIAL BANKS MUST CONTINUE TO PLAY A SIGNIFICANT

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PART. BUT THIS CHANNEL SHOULD NOT BE RELIED ON SOLELY TO CONTINUE TO SUSTAIN AN EXPANING VOLUME OF FINANCE OF THIS KIND, OFTEN OVER SUBSTANTIAL PERIODS.

6. ALL OF THIS PLEADS IN FAVOR OF A FURTHER INCREASE IN THE ROLE OF THE IMF. IT IS AGAINST THIS BACKGROUND THAT THE COMMUNITY HAS STUDIED VARIOUS WAYS IN WHICH THE ROLE OF THE IMF COULD BE STRENGTHENED. IT WELCOMES THE EFFORTS OF THE MANAGING DIRECTOR TO FORMULATE APPROPRIATE PROPOSALS TO THIS END. DETAILS OF HIS PROPOSALS WILL, OF COURSE, REQUIRE FURTHER CONSIDERATION HERE, AND IN THE LIGHT OF THE COMMITTEE'S CONCLUSIONS, IN THE EXECUTIVE BOARD ALSO. BUT I OFFER SOME PRELIMINARY COMMENTS NOW.

7. THE COMMUNITY HOPES THAT THE INCREASES AGREED UPON THE SIXTH QUOTA REVIEW WILL BE QUICKLY IMPLEMENTED AND IS PREPARED TO ACCEPT THE ARGUMENT FOR AN EARLY FURTHER QUOTA INCREASE IN THE CONTEXT OF THE SEVENTH REVIEW. THE AMOUNT OF THIS INCREASE WILL REQUIRE DISCUSSION.

8. THE COMMUNITY WELCOMES THE INITIATIVE TAKEN BY THE MANAGING DIRECTOR OF A TEMPORARY FACILITY TO PROVIDE FINANCE ON APPROPRIATE CONDITIONS TO FUND MEMBERS. THE COMMUNITY HOPES THAT COUNTRIES WITH STRONG PAYMENTS POSITIONS WILL BE ABLE TO CONTRIBUTE TO THIS FACILITY. THE COMMUNITY SEES TWO PARTICULAR ATTRACTIONS IN THIS KIND OF PROPOSAL: ITS DIRECT CONTRIBUTION TO THE SCOPE FOR THE IMF TO PLAY A STRONGER ROLE IN PROMOTING THE ADJUSTMENT PROCESS IN SURPLUS AND DEFICIT COUNTRIES, AND THE SCOPE FOR GIVING, WHERE APPROPRIATE, SUBSTANTIAL ASSISTANCE BEYOND THE SOMETIMES INSUFFICIENT RESOURCES WHICH CAN NORMALLY BE MADE AVAILABLE UNDER EXISTING QUOTA ARRANGEMENTS FOR PARTICULAR COUNTRIES.

9. WITH REGARD TO THE PROPOSED FURTHER ALLOCATION OF SPECIAL DRAWING RIGHTS, THE COMMUNITY HAS CERTAIN CONFIDENTIAL

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RESERVATIONS. WITH REGARD TO THE PROPOSED FURTHER ALLOCATION OF SPECIAL DRAWING RIGHTS, THE COMMUNITY HAS CERTAIN RESERVATIONS. IN THIS CONNECTION IT SUGGESTS THAT THE FINANCING PROBLEMS OVER THE NEXT TWO OR THREE YEARS DO NOT APPEAR TO STEM FROM A GENERAL SHORTAGE OF LIQUIDITY, BUT RATHER FROM THE ACTUAL DISTRIBUTION AND COMPOSITION OF LIQUIDITY. THE COMMUNITY THEREFORE SUGGESTS THAT THE KIND OF GENERAL AND UNCONDITIONAL INCREASE IN LIQUIDITY WHICH WOULD BE REPRESENTED BY A FURTHER ALLOCATION OF SPECIAL DRAWING RIGHTS IS LESS APPROPRIATE TO FORESEEN NEEDS THAN THE OTHER PROPOSALS OF THE MANAGING DIRECTOR PREVIOUSLY MENTIONED. THE COMMUNITY, HOWEVER, CONSIDERS THAT ALL THESE METHODS OF INCREASING THE RESOURCES OF THE FUND ARE CLOSELY INTER-RELATED.

10. THE COMMUNITY WOULD, IN ANY CASE, WELCOME A RE-APPRAISAL OF THE QUALITY OF THIS INSTRUMENT WITH THE AIM OF FINDING WAYS AND MEANS OF ENHANCING IT."HINTON

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## Message Attributes

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